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Biden Relief Plan Tosses \$350 Billion Lifeline to States, Cities.

- **Sends \$350 billion to states and cities to soften Covid hit**
- **Governments have cut nearly 1.4 million jobs amid pandemic**

President-elect Joe Biden's \$1.9 trillion relief plan would provide a major financial rescue for states and cities, eliminating the need for deep budget cuts that would weigh on the recovery and easing the risk in the municipal-bond market.

The measure proposes \$350 billion of emergency aid to states and local governments, enough to more than cover the immediate budget shortfalls caused by shutdowns to contain the virus. It would also extend \$20 billion to public transit agencies like New York's Metropolitan Transportation Authority, the subway and bus operator whose revenues have been decimated as Americans work from home.

"The top-line number is more than enough for what states and cities would need," said Dan White, director of public sector research for Moody's Analytics.

The move to help local governments marks a sharp break from the Trump administration, which characterized such efforts as a bailout for Democratic strongholds even though the economic impacts are distributed broadly around the nation. With business shutdowns threatening to reduce tax collections, states and localities have already eliminated nearly 1.4 million jobs since the pandemic struck, far more than were cut in the years after the Great Recession.

The prospect of more aid once Biden takes office and Democrats control the Senate was welcome in the municipal-bond market, which was battered by a selloff early last year amid concern about how badly tax collections would be hurt. The extra yield that investors demand to own the bonds of some of the most financially strained borrowers — including Illinois, New Jersey and New York's MTA — has dropped, indicating that investors are pricing in less risk. In the week through Wednesday, a record amount of cash flowed into mutual funds focused on high-yield municipal bonds, according to Refinitiv Lipper US Fund Flows data.

The aid in Biden's plan is far less than the \$1 trillion approved by House Democrats last year, and Goldman Sachs Group Inc. estimated it may be pared back to about \$200 billion given that Senate rules may require it to receive some Republican support. Barclays Plc strategists also said that the Biden plan may be difficult to pass in its current form.

"I don't have high hopes that it's actually included in any package that's passed in the spring," said White, the Moody's analyst.

The previous federal stimulus measures have helped to prop up state and local tax revenue by jolting the economy, leaving governments facing smaller budget shortfalls than were projected early in the pandemic.

State tax revenues increased 5.6% in November compared to a year earlier, according to preliminary data from 46 states compiled by the Urban Institute.

That means even a pared back aid package may go far. Moody's Analytics had estimated that aid of about \$80 billion to \$100 billion could cover the firm's forecast for the shortfall facing states and local governments through mid-2022.

"Any direct relief for state and local governments is going to be a positive," said Jeffrey Lipton, a managing director and municipal debt analyst for Oppenheimer & Co.

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By Amanda Albright

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